

Message Text

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ACTION EUR-25

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AMEMBASSY HELSINKI PRIORITY

LIMITED OFFICIAL USE OECD PARIS 12007

E.O. 11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF FINLAND

REF: OECD DOCUMENT EDR(74)12

1. SUMMARY: ECONOMIC DEVELOPMENT REVIEW COMMITTEE
WILL HOLD ANNUAL REVIEW OF FINLAND MAY 21. REFDOC
WAS AIR POUCHED TO KINNELLY (EUR/RPE) AND AIR MAILED
HELSINKI MAY 13. MISSION WELCOMES PARTICIPATION AT
MEETING BY EMBASSY HELSINKI. END SUMMARY

2. GROWTH AND OUTPUT: SECRETARIAT ATTRIBUTES SLACK-
ENING OF GROWTH OF OUTPUT DURING 1973 PRIMARILY TO SUPPLY
BOTTLENECKS IN FINNISH ECONOMY. IN 1974 DOMESTIC
DEMAND PRESSURES ARE EXPECTED TO EASE OFF AS CONSUMER
BOOM LOSES STEAM, AND GDP GROWTH RATE WILL DECLINE
TO 3 PERCENT FROM 5-L/2 PERCENT RECORDED IN 1973.
MAIN QUESTION FOR EERC CONSIDERATION WILL BE WHETHER
DEMAND WILL BE SUFFICIENT TO SUSTAIN EMPLOYMENT
AT AN ACCEPTABLE LEVEL. FINNISH POLICYMAKERS WILL
BE FACED WITH PARTICULARLY DIFFICULT CHOICE IN VIEW OF
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STRONG INFLATIONARY PRESSURES AND PRECARIOUS EXTERNAL

BALANCE. SECRETARIAT ASSUMES THAT POLICYMAKERS WILL CONTINUE FAVOR EXPANSIONARY FISCAL STANCE COMBINED WITH CAUTIOUS EASING OF RESTRICTIVE MONETARY POLICIES AND CONTINUED DEPENDENCE ON STRICT DOMESTIC PRICE CONTROLS.

3. EMPLOYMENT: ALTHOUGH SECRETARIAT NOTES THAT LABOR MARKET PRESSURES ARE STILL MAJOR CONSTRAINT ON OUTPUT, IT EXPECTS UNEMPLOYMENT RATE TO GROW TO ABOUT 3 PERCENT LEVEL BY END OF YEAR. FORESTRY AND METALS INDUSTRIES WILL CONTINUE TO EXPERIENCE QUITE SEVERE LABOR SHORTAGES. SECRETARIAT SUGGESTS FINNS CHANNEL LABOR RESOURCES TO THESE INDUSTRIES.

4. PRICES AND WAGES: FINNS EXPECT CONSUMER PRICE INDEX TO RISE ABOUT 15 PERCENT IN 1974, LARGELY DUE TO INCREASED PRICE OF OIL IMPORTS WHICH WILL ADD SOME 6 PERCENTAGE POINTS TO CPI. FINNS EXPECT CONTINUE RELY ON PRICE CONTROLS AS PRINCIPAL WEAPON AGAINST INFLATION. ON WAGES, THIS YEAR'S CENTRALIZED INCOMES NEGOTIATIONS RESULTED IN AGREEMENT TO RAISE WAGES BY ABOUT 11 PERCENT WHICH, WITH WAGE DRIFT, WILL RESULT IN 14.5 PERCENT INCREASE IN EARNINGS IN 1974. AS PART OF WAGE NEGOTIATIONS, GOVERNMENT UNDERTOOK TO REDUCE GROWTH IN DIRECT TAXES IN HOPE OF STABILIZING GROWTH OF PRICES AND COSTS. SECRETARIAT QUESTIONS WHETHER BENEFITS FROM CENTRALIZED WAGE AGREEMENTS WILL JUSTIFY LOSS OF FLEXIBILITY OF FISCAL POLICY.

5. BALANCE OF PAYMENTS: SECRETARIAT SEES CONTINUED BUOYANCY OF EXPORT SECTOR DUE TO BOOMING WORLD MARKET FOR FOREST PRODUCTS AND RECENT BILATERAL TRADE AGREEMENT WITH USSR INVOLVING EXCHANGE OF FINNISH MANUFACTURED GOODS FOR RUSSIAN OIL. EXPORT INDUSTRIES WILL OPERATE AT VIRTUAL FULL CAPACITY AND MAY HAVE DIFFICULTY IN OVERCOMING SHORTAGES OF LABOR, RAW MATERIALS AND PLANT FACILITIES. FOREIGN BALANCE IS EXPECTED IMPROVE IN VOLUME TERMS, BUT TERMS OF TRADE WILL DETERIORATE CONSIDERABLY, LEADING TO EXPECTED CURRENT ACCOUNT DEFICIT OF ABOUT MK LIMITED OFFICIAL USE

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2.75 BILLION. SINCE FOREIGN EXCHANGE RESERVES AT END FEBRUARY BELOW MK 2.1 BILLION, SECRETARIAT EXPECTS FINLAND WILL HAVE TO RESORT TO FOREIGN FINANCING.

6. PUBLIC SECTOR: SECRETARIAT NOTES THAT PUBLIC EXPENDITURE IS EXPECTED INCREASE IN REAL TERMS AS PROPORTION OF TOTAL GDP IN 1974, ALTHOUGH TAXES ARE TO BE REDUCED AND GDP GROWTH RATE HAS BEEN REVISED

DOWNWARD. SECRETARIAT SUGGESTS THAT PRESENT PLANS
FOR EXPANDED ROLE OF PUBLIC SECTOR MAY NEED TO BE
RECONSIDERED.

7. WE WELCOME EMBASSY HELSINKI PARTICIPATION AT
MEETING AND ITS COMMENTS ON EDRC DRAFT REVIEW.
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